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Friends of the Chair: review of the International Comparison Programme, 2005 Round

Note by the Secretary-General

The Secretary-General has the honour to transmit the report of the Friends of the Chair on the review of the International Comparison Programme (ICP), 2005 Round. The present report includes the results of an evaluation by the Friends of the Chair assessing the scope, activities and lessons learned from the current round of ICP. It provides recommendations where improvements can be made and a proposal by the Friends of the Chair concerning the continuation of the programme. The points for discussion are presented in paragraph 119.

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Report of the Friends of the Chair: review of the International Comparison Programme, 2005 Round

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I. Introduction

1. The Friends of the Chair (FOC) report provides a review of the International Comparison Programme (ICP), governance structure and experiences as perceived by parties involved. The review is partly based on self-assessment reports from the organizations that are part of the governance structure, such as the Global Office/World Bank and reports from the Regional Agencies. The report provides a review of the partnering arrangements based on material received from the institutions involved and evaluates initiatives for capacity-building. Moreover, the report draws conclusions based on survey results, reflecting on experiences of the participating countries.

2. The final evaluation of how the ICP governance in general has worked depends upon the outcome and quality of the final results. Some regional results have been released presenting differences in price levels and ranking according to the Gross Domestic Product (GDP) per capita. The regional results that have been published so far, and the final global results that will be released later this year, must, in addition, pass the in-depth analysis to be made by the user environment.

3. The report discusses ICP issues and provides recommendations in favour of the continuation of the ICP. These recommendations are partly based on the review of the users' point of view as concerns the ICP performed in August 2007. The FOC surveys provide relevant and important information on governance as experienced on regional and national levels. In part IV the focus is on main elements of the governance structure, and other challenges faced by the ICP, followed by a discussion on the continuation of the ICP. Policy implications and recommendations are emphasized in frames. Section V of the report contains concluding remarks.

II. The ICP background

A. Why do we need PPPs?

4. The basic idea behind purchasing power parity is revealed by its name. The idea is simply that a given amount of money should have the power to purchase the same amount of goods and services everywhere. However, as easy as it is to grasp the rationale behind the PPP idea, the practical computation of such parities is overwhelmingly hard. First, a major area of concern is the goods or services that cannot be traded, so one needs to clarify how to deal with non-tradables. Second, to identify identical goods and services across economies is a formidable challenge. Third, even if one would find similar goods, one is still left with the question of how to combine them into a representative consumer basket. Fourth, collecting prices sounds straightforward, but is far from it, especially when one considers the daunting task of collecting prices while holding quality constant. Finally, collecting and combining prices of one basket is a daunting task for any country. Needless to say, when one aims at constructing an apparatus intended to be followed and utilized in all countries across the globe, the problems multiply. Still, that is actually the ambition taken on board in the ICP.

5. By using PPPs as conversion factors, the resulting comparisons of GDP volumes enable us to measure the relative social and economic well-being of countries, monitor the incidence of poverty, track progress towards the Millennium

Development Goals (MDGs) and target programmes effectively. PPPs also assist international markets by identifying the relative productivity and investment potential of different countries.

6. In addition, PPP-rates may be used as benchmark to establish exchange rates when new economies introduce new currencies. They may be used to forecast market exchange rates, under the additional assumption that market rates tend toward PPP-rates in the long run. The increased need for PPPs also arises from the evolvement of international voting rights and loan terms, and global climate change initiatives.

7. The PPP-adjusted GDP numbers are essential as complement to GDP measures in constant prices, complementary in the sense of providing comparisons in space (between countries) in addition to the more familiar comparisons in time (within a country). The two sets of estimates will play important roles in explaining economic growth in a world of rapidly expanding international trade and investment. Thus, PPP-adjusted GDP numbers will add substantially to the system of international economic statistics required to inform policymaking, monitoring and evaluation.

B. The International Comparison Programme

1. Brief history

8. The ICP goes back to the late 1960s, starting with a small project comprising 10 countries in 1970. Further ICP rounds have been conducted in 1975, 1980, 1985, 1990 (only partial), and 1993. By the time of the last round, the ICP had become a global programme, covering 118 countries and all regions of the world.

9. Since 1985, the World Bank has had the role of global coordinator for the ICP in non-OECD (Organization for Economic Cooperation and Development) countries. The 2005 round of the ICP marks a turning point in the programme with the aim to meet criticisms levelled at the ICP and the quality problems summarized in the Ryten report.[1]

10. The Ryten report forwarded an in-depth criticism of the ICP 1993-1996 round mainly on detailed level. Much of the same criticisms were put forward in a report prepared by Castles,[2] mainly working with European data and in Fombellida and Varjonen[3] working with 1993 African data. The Ryten report was linked to a data-breeding problem. The problem was due to poor management and supervision of country-level data collection, data editing and processing and the lack of coordination between national statistical institutes (NSI) and the regional coordinators. The problems in turn caused the lack of credibility among stakeholders. The report also pointed at insufficient funding and the absence of a credible international coordinator and stressed the need for expanding the user environment.

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[1] Report on evaluation of the International Comparison Programme (E/CN.3/1999/8, United Nations, New York, 1999) by Jacob Ryten.

[2] Review of the OECD-Eurostat PPP Programme (STD/PPP (97)5, OECD, Paris, 1997) by Ian Castles.

[3] Raimundo Fombellida and Seppo Varjonen, External Evaluation of the International Comparison Programme, African Region: Phase VI (Luxembourg, Eurostat, 1996).

11. Based on the recommendations of the Ryten report, a new strategic framework was prepared in 2000-2001 by the World Bank in collaboration with a number of international, regional and national agencies. The Global Office, located in the World Bank, has been responsible for the actual management and coordination of the 2005 round. NSIs have implemented the programme on the ground, under the general guidance and coordination of regional agencies.

12. The governance arrangements were addressed at the thirty-third session of the United Nations Statistical Commission (UNSC) in 2002 in a project proposal prepared by the World Bank with input from the FOC in place at that time. The proposal called for an international governing body, an advisory body, and an international secretariat.

13. The status report to the UNSC in 2003 described the new governance structure containing the ICP Executive Board, the Regional Coordinators and the ICP Council. An Executive Board was established in 2002 being responsible for the implementation of the overall strategic framework as well as monitoring progress. In a meeting in February 2003 the Board asked that the Global Office appoint a number of experts to serve on a Technical Advisory Group (TAG) to provide technical advice and monitor data quality. The Global Manager was assigned to the ICP Global Office in the World Bank in November 2002. Due to several reasons the ICP Council was not given high priority from the beginning. The issue was more firmly set on the Executive Board agenda in 2006 leading to a decision taking the Council out of the governance structure. The Council was replaced by a Forum to serve the need for communication with user environments and comprising the same groups of stakeholders. A first meeting for the Forum is scheduled to mid-2008.

14. The ICP is a large and complex statistical initiative. The ICP 2005 round covers five regions and 102 countries. The results will be combined with the OECD/Eurostat PPP programme covering 45 countries, bringing the total to about 150 countries. The programme uses a series of statistical surveys to collect price data for a basket of goods and services, covering all components of GDP.

2. UNSC mandate

15. At its thirty-eighth session in 2007 the UNSC agreed to establish a Friends of the Chair (FOC), consisting of representatives of participating countries, constructed to evaluate the current ICP with respect to its scope and activities and make a proposal on the desirability of a new round.

16. Specifically, the FOC should seek to deliver:

(a) An evaluation of the effectiveness of the global, regional, and national levels of governance in the implementation and conduction of the programme.

(b) A review of the technical programme, including the ICP Handbook and the ICP Tool Pack.

(c) An evaluation of the first regional results.

17. In May 2007 the FOC received a draft framework for conducting the ICP review. The framework was divided in two phases:

(a) **Phase 1** should comprise a review of the ICP governance structure partly based on questionnaires surveying the participating countries' experiences during the 2005 round. In addition, self-assessment reports would be required from organizations being part of the governance structure, such as the Global Office/World Bank and the Regional agencies. This phase should also comprise a review of the users' general point of view as concerns the ICP taking into account that the 2005 round results would not be available until December 2007. The FOC should review lessons learned from the 2005 round and offer recommendations where improvements can be made. A report from phase 1 should be prepared and delivered in December 2007 for the thirty-ninth session of UNSC in February 2008.

(b) **Phase 2** should comprise an overall evaluation of the current ICP round, including a closer evaluation of methodological issues and an overall assessment of quality based on the empirical results. A joint project involving FOC and ICP Executive Board should be decided drawing partly on external competence (outsourcing).

3. The Friends of the Chairs working methods

18. In Phase 1 the FOC review has focus on governance aspects in general, and special emphasis on governance aspects as experienced from a national perspective. Information about the ICP governance structure, the entities being involved, their roles and responsibilities and the communication is in large well documented. This comprises minutes from the meetings held in the Executive Board, the TAG and for the regional coordinators meetings. When it comes to governance in practise, as experienced on national level, less is known. Below, a brief overview of the sources used and the questionnaires that have been employed for the review is given.

(a) A survey directed towards all countries participating in the regular ICP 2005 round. The questionnaire covers a number of subject areas with main focus on governance issues, such as the basis for decision-making and communication.

(b) A survey comprising countries participating in the Ring comparison. The questionnaire follows the structure outlined for the regular questionnaire.

(c) A request asking for the users' views on the ICP. This part comprises 45 international organizations.

(d) Self-assessment reports prepared by the organizations involved in the present ICP round. This part comprises reports from the Global Office/World Bank, some of the regional agencies — and NSIs being involved in the partnering arrangements.

19. In addition to these instruments there have been meetings with the Global Office, World Bank, International Monetary Fund (IMF) and members of the TAG. Important additional background information have been found in the annual ICP reports to UNSC, the ICP handbook, operational manuals, Newsletter articles to mention some.

III. Experiences from the ICP 2005

20. This section presents the surveys conducted and the main results.

A. Users' point of view

21. On 8 June 2007, a letter from the convenor of the FOC group was sent out to 45 international organizations asking for their view as users of PPPs produced by the ICP. The users were asked to give a brief view of the organization's current and future needs for PPPs and PPP-based indicators and by answering the following questions:

(a) The organization's actual or intended use of these indicators. Are they used as a basis for actual decision-making, or are they needed primarily for analytical purposes, for example in research?

(b) Does your organization intend to include PPP-based indicators in any of your regular publications?

(c) What is your organization's opinion on the desirability of another ICP round (tentatively scheduled for 2010)?

(d) Does your organization have any views on ICP at the more general level?

22. It is a common view expressed by the users that the availability of high quality PPP and PPP-related indicators are important. PPPs are used for commercial purposes, policy-making, but even more frequent in research and for analytical purposes. It is emphasized that PPPs are used as a benchmark for making international comparisons for economic policy making or economic analysis.

23. The majority of the users publish PPP-based indicators. The demand for the indicators seems high and is assumed to increase in the future given the process of globalization of the world economy. Indicators measuring standards of living and poverty are frequently demanded. As the forecasts of regional poverty levels receive strong public attention, United Nations Conference on Trade and Development (UNCTAD) would even support the computation of poverty-specific PPPs.

24. The ICP is seen as a valuable and major step forward, and the answer to whether there should be another round of ICP in 2010 is unarguably affirmative. It is emphasised that this is feasible only as long as the data are timely, reliable and available across a large number of countries. The opinion is expressed that in future the list of developing countries participating should be expanded.

25. A close cooperation between the United Nations and the World Bank in calculating PPPs is appreciated. The alternative, a number of uncoordinated PPP adjustments, which may differ substantially among various institutions, is clearly unwanted. The substantial initial costs of building consensus on methodologies, and in training national experts, are viewed as strong arguments for continuing the present programme. It is mentioned that PPP data could be more disaggregated, e.g. for GDP components, including imports and exports. It is also important that the methodology for the compilation of PPPs is comparable across the European Union (EU), the OECD and the rest of the world. Therefore, a continued strong cooperation between the OECD/Eurostat and the ICP should be emphasised. Further convergence of methods and possible integration of different programmes seem desirable.

B. The Friends of the Chair surveys

26. The FOC have conducted two surveys:

(a) The *Regular survey* covering all countries participating in the ICP 2005 round.

(b) The *Ring survey* covering countries taking part in the Ring comparison.

27. The regional agencies or coordinators are part of the survey populations. Both surveys have a focus on governance.

28. The main results from the two surveys are presented below, with focus on general governance issues. Where relevant, links have been drawn to the more technical parts of the surveys to underline the variations found in responses.

29. A more detailed document presenting the surveys, the methods and results will be prepared and made available as a room document at the thirty-ninth session of UNSC in February 2008.

1. The Friends of the Chair regular survey

30. The survey population encompasses all 147 countries participating. The ICP covers 6 regions — number of countries participating given in parenthesis: Africa (48), Asia-Pacific (23), Western Asia (11), Latin America (10) and Commonwealth of Independent States (CIS) (10). The Eurostat/OECD group (45) has for decades been organised outside the ICP.

31. The first five regions (ICP group) are under the auspices of the ICP and managed from the Global Office. Regional agencies — being part of the governance structure — have the responsibility for the intra regional coordination — support to participating countries.

32. By the end of October 2007 77 countries have replied. Of these, 19 are from Africa, 15 from Asia-Pacific, 3 from Latin America, 3 from Western Asia, 4 from CIS and 33 countries have participated in the Eurostat/OECD region. The overall response rate is 53 per cent though differing somewhat across regions. Most of the large countries (in population and economy) have responded; 68 of the countries responding have participated on the basis of a full GDP coverage, while 9 countries have participated in the consumption part only or on a test basis.

Premises for participation in future ICP surveys

33. A large majority of the ICP group countries are satisfied (41 out of 44) with their participation in the 2005 round and confirms that they would participate in a next round based on the current round experiences.

34. Comments from the countries confirm that the ICP has had wide positive effects on the national statistical programmes — both in the field of price statistics and national accounts (NA). The ICP meant substantial contributions in building national statistical capacities (institutional and technical) both in larger and smaller countries. Credit is also given to many of the regional agencies for their support — both financially and in providing assistance on technical/methodological problems. Participants also honour the work done in improving the statistical base for cross-

country comparisons as well as the contribution from the programme to improve the statistical basis for enlightening poverty problems.

35. The countries not being satisfied or reluctant as concerns future participation have in common that they are newcomers or fairly new to the ICP. They include also large economies in their respective regions. A few comments from a couple of the countries could be forwarded to give some insight to the positions taken:

> "*In spite of all shortcomings and limitations of the data, it is appreciated that a lot of efforts has been put in the current phase of ICP to overcome the problems faced in the earlier rounds. However, keeping in view the multifarious complexities involved in this gigantic exercise of computing PPPs, we have still to traverse quite a long path before these numbers are considered reliable and representing the ground realities.*"

> "*But many practical problems have lowered the accuracy and quality of PPPs, for instance, deviation from the basic ICP principle that representativity and comparability in ICP should be balanced, because of wide differences in levels of economic development, income and consumption modules among participating countries in the Asia Pacific region, nothing to do for guidance on quality adjustment. It is obvious that the PPPs from the current ICP round underestimated the price level of our country. Problems encountered in this round of ICP must be urgently resolved prior to the next round.*"

36. The critical comments also include governance issues regarding how the centrally managed surveys (housing, construction) were conducted. The points made on methodological and structural issues as well urge for action before launching a new ICP round.

Some general governance issues

37. As concerns the attitudes on whether the communication on the various aspects of the programme was effective, a majority of the countries (65 out of 77) are positive. A similar share of countries answer that there were sufficient opportunities to provide input into decisions made. The shares are in large the same within the ICP group and the OECD/Eurostat group.

38. The overall positive attitude is noticeable, considering that the ICP survey programme was delayed from the start. The ongoing process of developing new methodology created problems in several ways and further delays. Although the benchmark year was adjusted from 2003 to 2005 the communication processes ran short of time. The overall results might reflect that the participants have adapted to the changes in the premises.

39. Some of the participants, however, argue that communication and the decision process in periods have been unilateral and mandatory. To some extent, this reflects that a number of countries experienced large extra workloads due to delays in time schedules for parts of the survey programme. The same applies to important governance elements involved in how the centrally managed surveys were handled including the access to data collected.

The Global Office is responsible for establishing clear guidelines for how coordination between different levels should be carried out. A lesson learned is that the communication between regional and national coordinators needs to be improved.

40. Forty-nine out of 77 countries confirm that the various parts of the ICP had a significant impact on the workload of the NSIs. The share of the ICP group answering affirmative was 77 per cent while 45 per cent for OECD/Eurostat.

41. The extra workload was large for countries which had to price several hundred products outside their Consumer Price Index (CPI) baskets. For countries having well developed CPI systems and flexible resources for handling such situations this was handled without severe problems. For countries with less developed statistical systems the additional workload required resources not being available, causing further delays. Still, most countries understand that the ICP survey programme should cover additional products outside the national CPI baskets. A better balance should be found ensuring price comparisons across countries while keeping the extra burden to a minimum.

A lesson learned is that the extra workload pricing several hundred products outside their CPI baskets in the present round was too large.

42. In all regions the programmes have influenced the efforts towards integrating the ICP into the national statistical price programmes. Close to half of the countries (36 out of 77) confirm that such initiatives have been taken during the current round. For the ICP group 64 per cent of the countries report that such efforts have been taken. In the OECD/Eurostat group a corresponding share of countries is 24 per cent.

43. An important element of the ICP 2005 round has been the adoption of a full GDP coverage. This applies to most countries, while some minor countries have participated in the household consumption part only. For GDP components like housing and construction new/alternative methods were developed for which the adequate national statistical basis were not in place. Owing to this, parts of the survey programme have been conducted using a centrally managed approach, often without or only limited national involvement.

44. Most countries seem to accept the arguments for a central approach. The attitude is positive/mainly positive as concerns the centrally managed surveys. 55 per cent of the ICP group supports this concept. When responding to the more technical subject areas covering health products, education and government and housing a large majority in the ICP group — both small and large economies — argue for increasing national involvement in future rounds. Some serious critics have been formulated by some of the larger economies.

A lesson learned is that the communication aspects involved in the centrally managed surveys require further attention.

45. The survey has revealed a discussion on ownership issues, especially within the ICP group. The comments provided by one of the countries could illustrate the perspective of the discussions.

> *"The issue of ownership is very important, particularly in the context of the PPP results being dependant not only on one's own country data but also on the data being furnished by other countries. The quality, coverage and conceptual issues and their uniform practice across the countries is essential for a country to own the ICP results. The responsibility of the participating country at present is mainly to provide reliable data of the respective country as per the specifications finalised by the implementing agency; but at the same time reliability of the PPP results depends upon the methodology followed and accuracy of data of other participating countries.*
>
> *However, from the credibility point of view it is desirable to integrate ICP with the CPI. Also, as a participating country, we had reservations on the methodology followed in some areas, the reliability of data provided by some countries, and other conceptual and practical issues."*

2. The Friends of the Chair Ring survey

46. The Ring questionnaire was sent out to 17 countries all participating in the ICP Ring comparison plus the regional agencies and coordinators. By end of September 2007, 16 of the countries and 3 of the regional agencies have replied. In total the response rate is above 90 per cent. A number of qualified comments have been given.

Premises for participation in future ICP surveys

47. A large majority of the respondents are satisfied with their participation in the Ring comparison. 81 per cent (13 out of 16) are positive with the participation in the 2005 round.

48. Although, the attitude is mainly positive, it is not without reservations. The participating countries stress that the Ring comparison ran into a number of problems. Owing to delays in the regular ICP surveys, the Ring comparison started too late in the process and lost the flexibility needed to make adjustments underway. Problems with product specification, language problems, communication problems, too many consumption products on the list and differing product quality across regions etc. have all added to the national workload. A number of countries express doubts about the quality of price data collected for the Ring comparison.

49. A common concern of the countries is the lack of communication among the parties involved. There were in advance expectations that a common validation meeting comprising all Ring countries would contribute to solve some of the known problems with product lists and regional differences in product quality.

50. Most of the participating countries are of the opinion that the current experiences provide a basis for having a Ring comparison role in a next round.

Three of the countries look at this differently and express views against having such a role. Two of the countries pointing at the extra workload belong to the Eurostat/OECD group. The disclosure of data collected in the centrally managed surveys was the main issue for the ICP country.

> A lesson learned is that the Ring programme needs to be carefully evaluated to determine the number of countries to include, and the number of products to be priced. It should not go forward without involving the countries in the product selection and data validation efforts.

51. Several of the countries provide suggestions for changes to be made in future Ring rounds. It is recommended that the participating countries should be selected at an early stage of the next ICP round. Decisions on product lists should be made at an early stage and combined with pre-surveying when needed. Initiatives need to be taken to improve communication — in all stages — within and across regions. A joint meeting including all participating countries should have high priority. It is argued that many of the data problems could have been identified and solved at an early stage. A seemingly minor issue — though actually very important — is that the Ring countries must have enough time for translation of the product lists. Separate funding for the Ring exercise seems required.

> A lesson learned is that important aspects of communication fell short in the 2005 round. The issues should be discussed and decided on before launching a next round Ring survey.

IV. Main ICP challenges

A. Governance structure

52. An overall picture of the ICP governance structure is presented in the figure below. As mentioned in section II.B, the Executive Board is the decision-making and strategic body. The Global Office, being the secretariat of the Executive Board, is responsible for the overall coordination of the ICP. The TAG provides research and advice on technical issues and communicates closely with the Global Office. The Regional Offices coordinate and support the NSIs in implementing the comprehensive survey programmes. Regional Advisory Boards have been established for most regions.

53. The figure indicates the partnering arrangements between the regional agencies and one or more NSIs, which have proven to be very useful, and the OECD/Eurostat programme, being a separate programme and not a region within the ICP.

Figure 1: Governance Structure

54. Overall the governance structure has worked quite well, according to the responses of the parties involved. The designed structure has proven capable to handle some main challenges and problems previously discussed in reports to the UNSC. The new structure and the management initiatives taken have turned the ICP into an efficient global system, providing a solid basis for handling challenges in future rounds. However, there are some elements of the governance structure that needs to be evaluated or developed to improve the overall transparency and functioning of the system.

1. The Executive Board

55. At the beginning of a next ICP round the Executive Board representatives should be reconsidered.

56. Presentations of the roles and responsibilities of the Executive Board are found in the ICP Handbook and ICP website. Members of the Executive Board were initially appointed by the previous FOC group of the UNSC. A principle was that the membership of the Executive Board should reflect the composition of the regions taking part in the global programme, and all members were elected to serve for three years in their own individual capacities. In practise this is not how it turned out to be. The members of the Board represent their organizations and when a member was absent or left the organization, the replacement was from the same organization. These principles are also built into Memorandums of Understanding (MoU) with some organizations such as OECD/Eurostat.

57. The Board size limit is 16 members according to the ICP Handbook. The 2007 Board has 18 members of which two have limited participation. It is emphasised

that the Board is able to co-opt new members if and when the need arises, subject to the overall size limit.

58. The permanent members include the World Bank, IMF, United Nations Statistics Division (UNSD), Eurostat, OECD, and a representative from each regional coordinating organization. A number of reasonable arguments could be seen for having permanent memberships for parts of the Executive Board. A permanency for the main donors, user organizations, regional agencies allow for stability and continuity in the Executive Board as well as for the organizations. The competence and capacities of these members are in general important for discussions and decisions on ICP strategies.

59. As concerns the group of rotating members the criteria for membership needs clarification, first of all for the sake of transparency. In addition to the personal qualifications and experience (seniority), emphasis has been on including representatives for large regions and from major countries or economies in the regions.

60. There seems to be a tradition that the appointed FOC, at the end of a current round, should express opinions and take a role in forming a new Executive Board. This FOC points at the need for a transparent system for appointing rotating members.

> There is a need for establishing a transparent system for appointing the rotating members of the Board.

2. Global Office

61. The ICP Global Office is located at the World Bank's headquarters in Washington, D.C. Its activities are financed from the ICP Global Trust Fund established at the World Bank and follows World Bank administrative and fiduciary rules and regulations. The Global Office reports, through the ICP Global Manager, to the Director of Development Data Group (DECDG) in the World Bank. On matters related to the execution and implementation of the ICP mission, its policy, programmes, priorities and standards, the Global Manager acts within the directives provided by the Executive Board and within the framework of the work programmes and budgets approved by the Board.

62. There is evidence that the World Bank has done a very competent job. However, in practice the World Bank has been more than the host of the Global Office. This became more and more evident as the programme progressed and issues emerged regarding the confidentiality of data, workplans, staffing, and funding. When the World Bank agreed to host the ICP, it became a part of the DECDG work plan making its director accountable to the World Bank for the programme. When issues emerged about the location of the global data base and confidentiality, it was World Bank rules that prevailed with the DECDG director accountable for both, not the Global Office.

63. Usually most issues encountered have been resolved due to effective communication between the Chair of the Executive Board and the Director of DECDG in the World Bank. Even for future rounds there will be grey areas that

require ongoing effective communication between the Chair of the Executive Board and the institution hosting the Global Office. For the future the role of the host organization needs to be recognized and clarified. The twin roles and respective responsibilities of the Global Manager to the host organization and the Executive Board should be addressed as well.

64. A document with terms of reference clarifying the future roles and responsibilities of being a host organization should be prepared. The document should address the responsibilities of the Global Manager to the host organization as well as the reporting and relations to the Executive Board.

65. The Global Office's role as a secretariat for the Executive Board should be clarified. The Office is responsible for coordinating different parts of the ICP programme, including strategic, operational and technical issues. The Global Office should report mainly to the Executive Board, and not to the host institution.

> Terms of reference should be prepared, clarifying the roles and responsibilities of being the host organization.

66. Before deciding on a next round host organization it should be discussed whether the experiences made from the current round should lead to some amendments in how to organize the Global Office. Ahead of the next round a staffing plan should be prepared and agreed from the very outset. To establish stability in staff, long-term appointments should be given priority. Moreover, the ICP should gain from drawing on external competence and capacity. It is acknowledged that it is not essential that the Global Office run the Ring comparison. Instead, an operational agreement could be made with an NSI if it was sufficiently well resourced. The Global Office capacity and competence on price statistics, survey related matters as well national accounts issues could gain from establishing partnering arrangements with some NSIs. Regardless, there has to be close collaboration with the regions as much of the price data used in the Ring will come from the regions.

> For strengthening the Global Office competence and capacity on price statistics, national account issues as well as running the Ring survey programmes, it is recommended that a partnering arrangement be established with one or two NSIs from the outset of a next round.

67. The DECDG of the World Bank has indicated it would be prepared to host the next round if this has the support of the global statistical community and there are very clear directions on the changes to the ICP Programme. These are important for facilitating discussions with the World Bank Executive on the arrangements for the next round.

> A decision on the host organization for a next round should be determined as soon as possible.

The role of the Global Manager

68. The following paragraph comes from chapter 2 in the ICP Handbook illustrating the twin roles of being Global Manager:

> "*The Global Office reports, through the ICP Global Manager, to the Director of DECDG in the World Bank. On matters related to the execution and implementation of the ICP mission, its policy, programmes, priorities and standards, the Global Manager acts within the directives provided by the Executive Board and within the framework of the work programmes and budgets approved by the ICP Board.*"

69. One of the challenges of the Global Manager was to find and maintain a balance between the World Bank and the Executive Board when dealing with various issues involved in the complex organization. Although good governance has been shown in finding viable solutions, the twin roles and respective responsibilities of the Global Manager should be addressed.

70. The Global Manager should have management authority over the ICP staff. This implies that the Global Manager should have the responsibility to recruit staff and provide performance evaluations etc. It can be argued that the arrangement adopted relieves the Global Manager from the management responsibilities in order to concentrate on coordinating the ICP. However, a likely negative outcome could be that the arrangement causes difficulties over time in diminishing the Global Manager's authority. It is recommended that this pending management issues is solved before a new Global Manager is appointed.

> The responsibilities and authority of the Global Manager should be strengthened, in line with the mandate of the Global Office.

Appointing a new global manager

71. A new global manager should be appointed succeeding Fredrick A.Vogel, who will retire. It is recommended that the selection of a new manager should follow the principles of international competition as adopted in 2002. The current manager was appointed through a competitive process managed by a subcommittee of the FOC and the DECDG of the World Bank.

72. An important role of the Global Manager is to establish credibility and a sense of partnership with all partners being involved in the ICP programme. The FOC recommends that a new subcommittee is appointed to avoid confusion of roles and to clarify the independence of the selection process. It is suggested that the members of the subcommittee should comprise the Chair and two representatives of the Executive Board. Furthermore it is suggested that the subcommittee is extended with a representative of the host organization to form a selection panel. The final decision should be made by the subcommittee.

> The Global Manager should be appointed by a subcommittee from the Executive Board members.

3. The role of the OECD/Eurostat programme with the Global Office

73. Close collaboration between the global ICP programme and the programme in Europe and OECD is essential to the success as the global programme can take advantage of the long-term experience of OECD and Eurostat countries. The two programmes collaborate in several areas. The results from the two programmes are merged with that of the ICP to produce a single agreed global database.

74. Eurostat and OECD are members of the TAG which is responsible for research and advice on methodological issues in the ICP programme. Several of the Eurostat/OECD methods have worked as a model for developing the corresponding ICP methods. Similarly, the SPD (Standardized Product Descriptions) developed for the ICP programme has been adopted by the OECD/Eurostat programme. For the new GDP components, efforts have been made to establish a common basis for comparison. As part of the Ring Comparison some Eurostat/OECD group countries have participated in the ICP surveys covering all GDP components. As concerns cooperation on governance issues senior managers from Eurostat and OECD take part as permanent members of the ICP Executive Board.

75. While Eurostat and OECD conduct their PPP programmes independently of the ICP, they participated fully in the Ring programme. Eurostat provided the funding support needed by the Ring countries in their region for the extra data collection. The UK ONS (Office for National Statistics) coordinated the Ring programme for Eurostat/OECD region.

76. The role of Eurostat/OECD and the Global Office was not well defined from the start of the current round. However, a working relationship for the ICP 2005 round is articulated and documented in a letter of agreement signed in February 2007. The agreement clarifies the roles and responsibilities of the respective organizations.

77. Although steps have been taken with the current agreement there still appears to be a need for strengthening the relationship on a mutual basis. A revised letter of agreement should be established from the outset of the next ICP round.

78. A more direct working relationship should be established between the two programmes allowing for the ICP to benefit from the greater experience in Eurostat and OECD. This could include the mutual representation in regional meetings and workshops. One could also consider if Eurostat and/or the OECD should locate a person in the ICP staff. This person would fully participate in ICP activities, but also provide a more constant liaison. The current letter of agreement should be expanded for the next round to include more about respective funding responsibilities for the global programme.

79. A pending issue among the two programmes is how the CIS region participation should be coordinated. The problems met in the 2005 round both in the regular survey as well in the Ring comparison should be avoided. From the outset an agreement should be made deciding on how to the CIS regions should participate for future rounds.

> There is need for strengthening the working relationship between OECD/Eurostat and ICP on a mutual basis.

4. Partnering arrangements

80. At an early stage in the ICP 2005 round it was acknowledged that the regional organizations needed assistance on handling the complex statistical matters involved. For providing assistance partnering arrangements were established between each regional agency and one/two NSIs. Due to several reasons such arrangements were not established in all regions. Arrangements established for the 2005 round:

(a) Australian Bureau of Statistics (ABS) and the Asian Development Bank (ADB);

(b) Statistics Canada (StatCan) and the United Nations Economic Commission for Latin America (ECLAC);

(c) ONS UK, and Institut National de la Statistique et des Études Économiques (INSEE), France and the African Development Bank;

(d) The ONS UK and Eurostat/OECD/World Bank;

(e) Rosstat Russia and the CIS Statistical Office.

81. Overall, the arrangements established seem to have worked well. The experiences made by regional agencies according to our information are mainly positive. It is argued that partnering arrangements should be continued for future rounds and further developed based on present experiences. Most arrangements have worked with two main targets:

(a) Providing technical and management assistance and support to the regional agency;

(b) Building capacity and competence — on regional and national levels.

82. The technical and management assistance to the regional agencies covers a wide range of tasks that to some extent have been approached differently across regions. An important initial task in most regions was the development of the regional product lists. For some of the arrangements direct assistance and support to the NSIs was included — especially in African countries. All in all these were positive experiences. Some of the countries urge for further assistance with some of the challenging initiatives started.

83. The funding of the partnering arrangements differs somewhat though most are based partly on funding institutions supporting the institutional capacity building involved. This was the case for ONS, INSEE, ABS and StatCan though the size of funding might have differed. To some extent the NSIs have contributed with own funding. Ir. some cases the ICP Global Office has been a part in such agreements and contributed to the funding. For most regions there have been regular meetings handling strategy as well as reports on operational progress.

84. Regarding capacity-building there seems to be larger differences across the regions. The African initiatives appear to be the most comprehensive and reflect the special needs for this region. There are well developed plans for future initiatives worked out developed in collaboration with and funded by international organizations.

85. In most regions there has been emphasis on training of price statisticians and national accountants using seminars and workshops. From the participating

countries point of view these have proven useful covering the various stages of the survey programme working with the preparation of product lists, and later on data collection, validation and verification. Some of the countries emphasize the importance of network building among statisticians. In a few cases some more in-depth capacity and competence initiatives seem to have been taken directly towards integration of ICP in the national CPIs or cross national harmonizing of the CPI basket.

> Partnering arrangements should be put in place from the outset of a next round. The arrangements should more explicitly build long-term national capacity and competence.

B. Communication

86. The ICP website is the centre for information about the ICP. This is a well-organized site providing broad information on the ICP, the entities involved, the activities, the survey programmes and important uses of the PPPs. For each region there is a separate page providing information on the region as well as status reports on progress and other relevant information. The site contains important documents on the ICP surveys and methods, the Handbook, the Operational Manuals as well as research and development. Information about new methods and tools are briefly presented.

87. Transparent information on the various issues has been a central element in the processes leading up to the dissemination of final global results. The information strategy has emphasised providing insight to stakeholders and public in general. For the Executive Board, the TAG and the meetings with the regional coordinators, the minutes from each meeting being held have been made available from the ICP website.

88. One observation is that there have been many meetings for some of the entities. For the current round one should keep in mind that the 2005 round has implied major changes in the methodological aspects as well as in the governance. Based on the new governance platform established and the experiences gained throughout the present round one should expect that this will gradually converge to planned meeting frequencies when a new round start. At the same time, for future rounds the role of the regional coordinators is likely to be even more important in their execution of effective governance not only within a region but also to a larger extent across regions.

89. The ICP Newsletter or ICP Bulletin offers a number of relevant articles to the users on the various ICP issues covering governance, in depth presentations of new elements in the survey programme, some country reports on the experiences made using the new tools introduced. The newsletter is available in five languages.

> The next round of the programme should be adequately funded to support workshops and other activities essential to exchange information and maintain open communications.

C. Capacity-building

90. The ICP 2005 has represented a learning challenge for all entities involved though especially for the global, regional, and national coordinators. A wide range of quality improvements have been introduced for the household consumption part implying a vast number of challenges to the participating countries. For a large number of countries work has been extended to cover all GDP components representing new areas for the national statistical programmes, capabilities and competence. Along with new methods the principles, routines and procedures have been adapted, and in line with this, the operational manuals and the ICP handbook have been rewritten. A set of new tools were as well introduced to improve quality through standardization but also to assist the national statisticians in their work.

91. For the 2005 round capacity-building has been an integrated part of the continuous process for improving data quality. The participating countries have been introduced to the new elements in several ways. Regional coordinators have as far as possible provided assistance and support to solve the various problems encountered. In addition the regional seminars and workshops on prices as well as national accounts (NA) have been important forums bringing the statisticians together for presentation and discussions on new methods and operational practice.

92. From a country perspective, there have been a great number of subjects to address, comprising how to work with new concepts, sampling issues, national coverage and scope, introducing new standards and classifications, preparing regional product lists (SPD), and handling the compilation, estimation, validation and technical issues on transfer of data to the regional coordinator. And later on, the regional validation seminars brought the national practitioners together.

93. Important contributions to capacity building have resulted from the direct and indirect learning on regional and national level. Regarding future rounds, further steps exploiting the synergies between the ICP and the national statistical programmes should be taken. Some frequently discussed initiatives are:

(a) Integrating the ICP consumption product lists into the national CPIs;

(b) Harmonizing CPIs on subregional level based on ICP product specifications;

(c) Integrating the periodic national household budget surveys (HBS) for utilization in the NA.

94. Exploiting these approaches on a sustainable basis requires that the international standards and classifications (among which Classification of individual consumption by purpose (COICOP)) developed for the purpose of the ICP should be implemented. This comprises as well the SPD tool being used in preparing the CPI product specification list in general.

95. According to the FOC regular survey more than 80 per cent of the participating countries are of the opinion that there is potential for integrating ICP and CPI. So far, experiences from attempts of integration are mixed. One of the problems faced is that the CPI product specification does not meet the ICP requirement for details reflecting the challenges when making spatial comparisons of prices versus comparisons in time.

96. As a basis for the Latin American region ICP consumption surveys, a common product list from the regional harmonized CPI was adopted. A similar solution was as well used by the CIS region countries. The FOC regular survey comments from Africa and Asia indicate that there are subregional initiatives on harmonizing work with respect to regional consumption product lists as a starting point.

> Capacity-building on regional and national levels must have high priority with large emphasis on integrating the ICP efforts on prices and NA with the national statistical programmes.

D. Continuation of the ICP

97. A fundamental question addressed by the FOC is whether the ICP should continue. Given an affirmative answer, a follow up issue concerns frequency and what the next benchmark year should be. This will again require a decision on the coverage and scope of a next round. For several reasons, a decision on continuation should be taken in early 2008, recognising that there are a number of details that still need to be sorted out.

98. The 2005 round of ICP has obviously been a major step forward in developing a system of calculating PPPs on a global basis. Much more resources than before have been put into improving the methods and routines for collecting data, preparing operational manuals and a handbook. In addition, tools for preparing the lists of products have been developed and used in preparing the data-collection surveys, estimation and validation, for transfer and for regional validation. The basis for producing PPPs is clearly much better than in previous rounds. For expanding the coverage to the full GDP level, a number of new methods have been developed as well. The communication aspects between entities in the governance structure have improved and, as a result, a more transparent process has been achieved. There are some aspects of regional communication that require further attention.

99. As concerns the promotion of the ICP in the user environments some challenging steps remain to be taken. An important step was the decision to establish a Forum comprising all interested stakeholders. This provides an open channel for discussion on the various aspects of the ICP. A first meeting in the Forum is scheduled to mid-2008. Moreover, users' point of view typically emphasise the importance of availability of data and time series aspects. More frequent ICP surveys are welcomed.

100. As seen from the participating countries point of view, the combined elements of the ICP 2005 round constitute a sound basis for continuation and for building credibility. A large majority of countries have a positive attitude as concerns participation in future rounds. Still, one should not ignore that there could be conflicting opinions regarding willingness to enter into a new round. For many countries the many new elements of the current round have been challenging. Adapting to the survey programme and quality issues involved requires more experiences and time with the new structure and organization established.

> The ICP should be continued, drawing on the main elements of the current governance structure and the experiences obtained during the current round.

101. A rapid decision on continuation is probably necessary to avoid dismantling the world-wide organization structure that is established in the current round — in the NSIs, the regional agencies, and the Global Office. This is especially a challenge for the smaller countries and statistical institutions that normally are vulnerable in terms of turnover in staff. This could as well become a problem within the regional organizations.

102. Budget affordability is an important issue. This applies globally, regionally and nationally. A number of countries, both large and small, have experienced a significant increase in the workload. This cannot be continued for a next round without initiatives for easing the overall burden. A balanced reduction in the number of ICP consumption products could help to achieve this. This should, however, be combined with initiatives aimed at aligning the ICP more closely with the prices and NA work of NSIs.

103. The funding of ICP 2005 was provided by a limited number of donors, and the World Bank carried the greatest burden. Major contributions at the national level for the global programme came from the DFID in the UK, the AusAid in Australia and the CIDA in Canada. Contributors at the international level included the IMF and the UNDP. Funding support from the global trust fund was provided to most of the regions. However, most also conducted their own fund-raising efforts which contributed significantly to their regional programme. Periodic status reports were provided to the donor organizations to keep them informed on progress.

> A long-term funding commitment by all stakeholders is of utmost importance for the continuation of the ICP.

104. What should be the next benchmark? The common attitudes among stakeholders definitely seem to favour a next benchmark within the next 2-3 years. 2010 has been suggested in the FOC group emphasizing the need to keep the momentum — and to send a signal to the users. Some of the participating countries have argued for 2011 as a next benchmark, based on a recommendation to align the ICP and the OECD benchmark.

105. In a long-term perspective an overall aim could be to align ICP with the OECD/Eurostat system using a 3-year rolling approach for the survey programmes. For a next round this is all too ambitious, although some steps have already been taken in the current round regarding survey components and governance system. Further efforts supporting integration of systems are required on regional and national level in continuing capacity-building and developing the national statistical systems.

> The next benchmark should be 2011, allowing time to remedy any problems encountered in the phase 2 evaluations and aligning with the next OECD/Eurostat benchmark. The ICP should thereafter work with a 3-5 year frequency.

106. The decisions to be made on coverage and scope are obviously related to the funding issue, and more generally to resources and capacities available at different levels. In the user environment there is a strong support for keeping a full GDP coverage. There is a support for this among the participating countries as well, being well aware of the importance of the centrally managed survey programme developed to cover components like housing and construction.

> The ambition of developing full GDP coverage of PPPs should be continued.

107. Some user environments argue for increasing the number on participating countries. Even the smaller participating countries seem to be motivated and emphasise interest in future participation in the global ICP programme. A number of the countries that did not participate in the 2005 round are of special interest when working with poverty issues and MDGs. For many of these countries the statistical capacity and competence is weak and could require support beyond what the funding situation allows. The overall evaluation and decisions to be taken on this issue should rest with the Executive Board and stakeholders involved.

E. National accounting issues

108. As mentioned, the 2005 ICP round has been extended to full GDP coverage. National accounts aggregates are being used in the ICP serving in the role as weights in the aggregation process and frame for the ICP results, in particular GDP and individual consumption. There are a number of issues in the countries' national accounts that may heavily affect the final result, and which should therefore be reviewed as part of an overall evaluation of the ICP.

(a) The approach taken for the ICP comparisons is the one from the expenditure side, enabling comparisons of levels and structures of the principal components of final demand. A disadvantage with this approach is that industries are not identified for productivity comparisons. The approach taken means that PPPs are calculated in three stages: at the product level, at the group product level and at the aggregated levels. The weights used for the latter are the expenditures for the product groups, and these are preferably to be found in the categories of expenditures in national accounts.

(b) On the full expenditures breakdown, the United Nations 2006 Yearbook of *National Accounts Statistics* reveals that virtually all (125) of 127 countries providing both NA and ICP data do have such a breakdown on expenditures. Another 19 countries (mostly African) following the ICP do not have NA data

published at all in the Yearbook. On the individual consumption expenditure breakdown, 63 ICP countries, or just one half of the countries with the aggregated final expenditures, publish such a detailed breakdown. Thus, as many as 83 ICP countries, therefore, lack this key table. This group includes countries like Argentina, Bangladesh, China, Egypt, India, Indonesia, Nigeria, Pakistan and the Sudan.

(c) PPPs are used to convert national final expenditures on product groups, aggregates and GDP of different countries into real final expenditures. PPPs and real final expenditures provide the price and volume measures required for international comparisons. Three sets of indices are typically derived (all utilizing the NA framework): indices of real final expenditures, indices of real expenditure per head, and comparative price levels. Certainly, there are limitations to be made to these price and volume indices, depending also on the reliability of the expenditure weights and the price data.

(d) The final expenditures should be broken down by product groups — called "basic headings" — according to a common classification for prices and expenditures. The basic headings levels are the building blocks of the comparisons. In practice, coverage is determined by the lowest level of final expenditure for which explicit expenditure weights can be estimated. Such level of details is rarely found in the national accounts. The FOC Regular Study confirms that this is a problem. More commonly, the most detailed data may be extracted from the household budget surveys.

(e) Valuation is important for providing comparable volume measures: expenditures valued at purchaser's prices require that — for consistency reasons — the prices should be purchasers' prices, i.e. market or transaction prices, and representative of their final expenditure on GDP.

(f) The prices reported in the ICP need to be consistent with the prices underlying the national accounts, otherwise the denominator (i.e. the PPP) will not be consistent with the numerator (i.e. the national accounts) resulting in fallacious comparisons. This is particularly the case where market prices are not always easily established, such as in health and education.

109. While it is important to have complete and comparable breakdowns of expenditure at the basic heading level, it is even more important to have complete and comparable levels of GDP. In other words, the same definition of GDP should be applied by all countries (1993 SNA not 1968 SNA for example). Furthermore, the GDP estimates should be exhaustive including estimates of the non-observed economy, own-account production, owner-occupied housing, small unincorporated enterprises and making imputations for survey non-response.

110. The results obtained from the part of the FOC Regular Survey on breakdown of expenditure to basic headings, address issues on communication as well a heavy workload in a great number of countries. Establishing a data basis for meeting the basic heading weights specifications has been quite a challenge for the ICP countries. When producing the basic headings weights for the 2005 round, information from the national household budget surveys (HBS) were used where available, and these surveys will have high priority as source in future rounds. International efforts on preparing and conducting HBS need to be coordinated and as far as possible synchronized. It should as well be mentioned that the HBS data in

general are not adequate in representing expenditures by wealthier parts of the population. The list of problem areas emphasized by the ICP countries should be addressed in Phase 2 of the review in greater detail. Important areas are construction and government services, and assigning weights for missing information.

111. The survey reveals that some countries have not been involved in the work on weights (Latin American countries). This is unfortunate when having focus on capacity-building and implies that the countries do not have the opportunity to gain from useful experiences.

112. In conclusion, it should be noted that features of national accounts being involved in the ICP work underline the fact that they are of utmost importance to the results. Characteristically and critical, it is seen that a great deal of imputation is implied in the weights issue.

> A lesson learned is that work on national accounts needs to be improved in contents, both in terms of more details and improved quality. In future rounds, ICP should be more closely aligned with statistical programmes in the NSIs, household budget surveys and national accounts.

V. Concluding remarks

113. The 2005 round of ICP has been a major step forward in developing a system of calculating PPPs on a global basis. More resources than before have been put into improving the programme. The new governance structure and the management initiatives taken have turned the ICP into an efficient global system, which also seems capable of handling the challenges in future rounds.

114. For expanding the coverage to the full GDP level, a number of new methods have been developed. Tools for preparing lists of products have been developed and used in preparing data collection surveys, estimation and validation at different levels. The communication aspects between entities in the governance structure have developed. The basis for producing PPPs on a global basis is clearly significantly improved through the present round.

115. Still, being a large and complex system, there are obviously further improvements to be made in different areas of the ICP. In the present report, the FOC has focused mainly on various elements of the governance structure. A main conclusion is that the governance structure now in place has functioned quite well, and, as a result, a more transparent process has been achieved. The structure has proven capable to handle main challenges and problems previously discussed in reports to the UNSC. Among the recommendations, the FOC has stated that both the role of the Global Manager and the responsibilities of being a host institution need clarification. Several aspects of the Ring comparison communication fell short during this round and require further attention before launching a new round. Furthermore, the communication between regional and national coordinators needs to be improved.

116. To keep up momentum, a decision on continuation of ICP should be taken early in 2008. A preferable new benchmark year could be 2011. This would bring

the ICP at pace with the OECD/Eurostat system, enabling further integration of the two programmes. In a long-term perspective, an overall aim should be to align ICP with the OECD/Eurostat system using a 3-year rolling approach for the survey programmes. The ambition of developing ICP to full GDP coverage should be continued.

117. To fulfil these ambitions, however, would require a clear strategy of standardization and integration between different statistical programmes. With the rapidly increasing workload of statistical offices, it is decisive for the future of ICP that future rounds have focus on a closer alignment with other statistical programmes in NSIs, such as price statistics and NA.

118. In new ICP rounds, as before, capacity-building and active cooperation between different levels and institutions will be of utmost importance. Communication between different parties involved should be improved.

VI. Points for discussion

119. **The Friends of the Chair state that, overall, the governance structure of the 2005 ICP round has worked well. However, the report contains several recommendations, of which the Commission may wish to express its views on the following:**

(a) **To keep up momentum, a decision on continuation of ICP should be taken early in 2008. A preferable new benchmark year could be 2011. This would bring the ICP at pace with the OECD/Eurostat system, enabling further integration of the two programmes.**

(b) **The responsibilities and authority of the Global Manager should be strengthened. Terms of reference should be prepared, clarifying the roles and responsibilities of being host organization. The Global Manager should be appointed by a subcommittee from the Executive Board members.**

(c) **For strengthening the Global Office competence and capacity on price statistics, national account issues as well as running the Ring survey programmes, it is recommended that partnering arrangements be established with one or two NSIs from the outset of a next round.**

(d) **Communication aspects require further attention before launching a new round. Important aspects of the Ring comparison communication fell short during this round. Furthermore, the communication between regional and national coordinators needs to be improved.**

(e) **The ambition of developing ICP to full GDP coverage should be continued. To fulfil these ambitions, however, would require a clear strategy of standardization and integration between different statistical programmes. With the rapidly increasing workload of statistical offices, it is decisive for the future of ICP with a closer alignment with other statistical programmes in NSIs, such as price statistics and national accounts.**